

## 2001 Corporation Income Tax Return

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### General Instructions

#### Which Corporations Must File a Return

Every corporation subject to the Arizona Income Tax Act of 1978 must file an Arizona corporate income tax return.

**NOTE:** *Homeowners associations described in IRC § 528 are not exempt from tax under ARS § 43-1201. These associations must file Form 120A, the short form corporation tax return. However, certain homeowners associations are federally tax exempt under IRC § 501(c)(4), as social welfare organizations or under IRC § 501(c)(7), as clubs organized for pleasure or recreation. These homeowners associations are similarly tax exempt for Arizona income tax purposes. These organizations may file the Form 99.*

#### Which Form to Use

The standard corporation income tax return, Form 120, is designed to accommodate any taxpayer including the most complex filing under the combined or consolidated methods. The short form, Form 120A, is designed for corporate taxpayers with less complex filing requirements.

A corporation **MUST USE FORM 120** if: (1) it is a multistate corporation; or (2) it is a member of a unitary group of corporations that files an Arizona return on a combined basis; or (3) it is a member of an affiliated group of corporations that elects to file an Arizona consolidated return. A corporation that has income from business activity that is taxable in more than one state is a "multistate corporation".

**NOTE:** *The corporation must file Form 120 if the corporation is: (1) a partner in a multistate partnership, or (2) a partner in a partnership with business activity conducted entirely outside Arizona.*

A corporation **MAY USE FORM 120A** if it files its return on a separate company (separate entity) basis and it is a "wholly Arizona corporation". A corporation that has income from business activity that is taxable entirely within Arizona is a "wholly Arizona corporation". A corporation files on a

separate company (separate entity) basis if: (1) it is not part of a group of corporations comprising a unitary business; or (2) it is not a member of an affiliated group that elected to file an Arizona consolidated return.

#### Entity Classification Under the Federal "Check-the-Box Rules"

The federal tax classification of an entity under the federal "check-the-box rules" determines the entity's classification for Arizona tax purposes. Refer to Arizona Corporate Tax Ruling CTR 97-1 for further information. An entity that is disregarded as an entity separate from its owner is included in the tax return of its owner.

#### Limited Liability Companies

Under the provisions of the Arizona Limited Liability Company Act, a limited liability company (LLC) is classified as a partnership, or as a corporation, or is disregarded as an entity as determined under the Internal Revenue Code as defined in ARS § 43-105. A single member LLC that is disregarded as an entity is treated as a branch or division of the owner. An LLC classified as a partnership for federal tax purposes must file Form 165. An LLC classified as a corporation for federal tax purposes must file Form 120. An LLC classified as a corporation for federal tax purposes that makes a valid federal election to be taxed as an S corporation must file Form 120S. A single member LLC that is disregarded as an entity for federal tax purposes is included in the Arizona return of its owner. Refer to Arizona Corporate Tax Ruling CTR 97-2 for further information.

#### Electing Small Business Corporations

Corporations taxed as S corporations under Subchapter S of the Internal Revenue Code must file Form 120S.

#### Taxable Year Covered by Return

File returns for the calendar year or fiscal year. Indicate the period covered by the taxable year on page 1 of the return (in an MM/DD/YYYY format) and whether the taxable year is a calendar year or a fiscal year.

#### Filing Original Returns

Returns are due by the 15th day of the fourth month following the close of the taxable year. If the taxpayer has a valid federal or Arizona extension, file the return by the extended due date. If the taxpayer uses a FEDERAL extension, the taxpayer must check the federal extension box on page 1 of the return. If the taxpayer uses an ARIZONA extension, the taxpayer must attach a copy of the Arizona extension to the front of the return. Send the return to the Arizona Department of Revenue, PO Box 29079, Phoenix AZ 85038-9079. One or more of the following officers (president, treasurer, or any other principal officer) must sign the return. Attach a copy of the completed federal return (Form 1120, 1120A, etc.) to the Arizona return.

The department normally determines the timeliness of a return by the postmark or other official mark of the U.S. Postal Service stamped on the envelope in which the return is mailed.

Refer to Arizona General Tax Ruling GTR 93-1 for further information. The department will also accept proof of mailing from a private delivery service included in the Internal Revenue Service list of designated private delivery services. Contact the private delivery service for information regarding how to obtain the written proof of mailing.

### **Rounding Dollar Amounts**

Taxpayers must round amounts to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down.

## **Arizona Filing Methods**

There are three methods of filing corporate income tax returns to Arizona: (1) separate company (separate entity); (2) combined; and (3) consolidated.

### **1. Separate Company**

A corporation files on a separate company (separate entity) basis if: (1) it is not part of a group of corporations comprising a unitary business; or (2) it is not a member of an affiliated group that elected to file a consolidated return.

### **2. UDITPA and Combined Returns**

Arizona adopted the Uniform Division of Income for Tax Purposes Act (UDITPA) for taxable years starting January 1, 1984, or later. (Refer to ARS §§ 43-1131 through 43-1150.) Any corporation having income from a business activity which is taxable both within and without Arizona must allocate and apportion its net income according to this Act.

Generally all business income generated by a unitary multistate enterprise subject to taxation under the Internal Revenue Code is subject to apportionment. The unitary business apportions business income by using a three-factor formula. The basis of the formula is property, payroll, and sales in Arizona compared to the same factors for the whole unitary business subject to the Internal Revenue Code. An exception is a unitary business that apportions its business income using the air carrier alternate apportionment method. The basis of the formula is a single factor of revenue aircraft miles flown within Arizona for flights beginning or ending in Arizona compared to total revenue aircraft miles flown everywhere.

Business income under the transactional test means income arising from transactions and activity in the regular course of the taxpayer's unitary trade or business. Business income under the functional test includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations.

A unitary business comprises those parts and components whose functions are integrated and interdependent at the basic operational level. A unitary business may include more than one corporation. A bond of direct or indirect ownership or control must unite the entities comprising the unitary business. Direct or indirect ownership or control is the ownership or control of more than 50 percent of the voting stock of a subsidiary corporation. [Arizona Administrative

Code rule AAC R15-2D-401(A)] NOTE: Refer to Arizona Corporate Tax Ruling CTR 00-2 for additional information regarding whether a bond of direct or indirect ownership or control exists. When a unitary business comprises more than one corporation, the department requires a combined return, unless the affiliated group elects to file a consolidated return pursuant to ARS § 43-947. Refer to Arizona Corporate Tax Ruling CTR 01-1 regarding whether a tax-free IRC § 351 reorganization affects the Arizona unitary group determination.

Any filing methods approved by the Arizona Department of Revenue for specific corporations prior to the adoption of UDITPA are no longer in effect.

A unitary group of corporations required to file a combined return must complete Section I of Form 51 for the first taxable year the group files a combined return. Form 51 is the combined or consolidated return affiliation schedule. Attach the completed Form(s) 51 to the tax return. In succeeding taxable years, complete Sections II (Additions) and III (Deletions) of Form 51 to report changes in the unitary group. Indicate whether changes have been made to the unitary group by checking the appropriate box for question C in the information section on page 1 of Form 120.

### **Foreign Corporation; Water's Edge Limitation**

Do not allocate or apportion the income and expenses of foreign corporations to Arizona if the foreign corporations are not themselves subject to the Arizona corporate income tax. This provision does not apply if a foreign corporation is a member of an affiliated group that elects to file an Arizona consolidated tax return.

"Domestic corporation" means a corporation created or organized in the United States or under the laws of the United States, any of its states, or the District of Columbia.

"Foreign corporation" means:

- A corporation which is not a domestic corporation.
- A domestic corporation with less than 20 percent of its property, payroll, and sales in the United States. The percentage applies for the three year period ending with the close of the taxable year of the corporation preceding the current taxable year. The percentage is alternatively applied for such part of the period as the corporation has been in existence.

Refer to Arizona Corporate Tax Ruling CTR 99-1 for information regarding double-weighting of the sales factor in the determination of whether a domestic corporation has less than 20 percent of its property, payroll, and sales in the United States.

- A domestic corporation that derived 80 percent or more of its federal gross income from sources in Puerto Rico or any other possession of the United States except the Virgin Islands. This determination is made for the three year period immediately preceding the close of the taxable year, or for such part of that period as the corporation has been in existence. The corporation must also have derived 65 percent or more of its federal gross income from the

active conduct of a trade or business in Puerto Rico or any other U.S. possession except the Virgin Islands. This determination is made for the three year period immediately preceding the close of the taxable year, or for such part of that period as the corporation has been in existence.

Finally, the law provides a subtraction from Arizona gross income for all dividend income received from foreign corporations.

### 3. Consolidated Returns

The common parent of an affiliated group of corporations that files a federal consolidated return may elect to file an Arizona consolidated return. The election made by the common parent is effective only if accompanied by written consents to the election signed by each of the members of the affiliated group. Form 122 is the written consent form. A current officer of each subsidiary in the affiliated group must sign the consent form. Attach the completed Form(s) 122 to the tax return for the first taxable year the affiliated group files a consolidated return. The election is binding on the group for succeeding taxable years unless the department consents to a change of filing method.

The common parent must make the election on or before the due date, including extensions, for filing the original return.

The Arizona affiliated group includes all members of the affiliated group filing a federal consolidated return, regardless of whether each member is subject to tax under Title 43 of the Arizona Revised Statutes.

In succeeding taxable years, the election made by the Arizona affiliated group to file an Arizona consolidated return is binding on new members of the federal affiliated group. The Arizona affiliated group includes all new members of the affiliated group included in the filing of a federal consolidated return.

The Arizona gross income of an Arizona affiliated group is the consolidated federal taxable income of the affiliated group.

A multistate Arizona affiliated group must allocate and apportion its income to Arizona and is a single taxpayer for purposes of allocation and apportionment. A multistate Arizona affiliated group apportions its income by means of a single apportionment formula.

All members of an Arizona affiliated group are jointly and severally liable for the taxes, interest, and penalties of the Arizona affiliated group under Title 42 and Title 43 of the Arizona Revised Statutes.

An affiliated group that elects to file a consolidated return must complete Section I of Form 51. Form 51 is the combined or consolidated return affiliation schedule. Attach the completed Form(s) 51 to the tax return for the first taxable year the Arizona affiliated group files a consolidated return. In succeeding taxable years, complete Sections II (Additions) and III (Deletions) of Form 51 to report changes in the Arizona affiliated group. Indicate whether changes have been made to the Arizona affiliated group by checking the appropriate box for question C in the information section on page 1 of Form 120.

Refer to Arizona Corporate Tax Rulings CTR 94-10 through CTR 94-13 for information regarding consolidated tax returns.

### Treatment of Installment Obligations When Corporation Activities Cease

If a corporation elects to report income from the sale or other disposition of property on the installment method, and does not report the entire amount of income from the sale before the year the corporation ceases to be subject to Arizona corporation income tax, the corporation must report the unreported income in the last year in which the corporation is subject to the tax. This provision does not apply if a reorganization transfers the installment obligation to another taxpayer subject to Arizona tax as the transferee. The transferee may not use its capital losses to offset income from the installment obligation transferred from a corporation no longer subject to the tax.

### Payment of Tax

The entire amount of tax is due by the original due date of the return.

### Estimated Tax Payments

Corporations that expect an Arizona income tax liability for the taxable year of \$1,000 or more must make Arizona estimated tax payments. Use Form 120ES, *Corporation Estimated Tax Payment*.

For exceptions to the estimated tax requirements, see the instructions for Form 220, *Underpayment of Estimated Tax by Corporations*.

A corporation that fails to make the required estimated tax payments is subject to a penalty on any estimated tax payment which is late or underpaid.

The Arizona required annual payment of corporate estimated tax is the smaller of:

- Ninety percent of the taxpayer's Arizona tax liability (reduced by the retroactive consolidation tax payment credit and claim of right adjustments, if applicable) for the current taxable year; or
- One hundred percent of the taxpayer's Arizona tax liability (reduced by the retroactive consolidation tax payment credit and claim of right adjustments, if applicable) for the prior taxable year.

**NOTE:** In order for the taxpayer to base its Arizona corporate estimated tax payments on the prior taxable year's tax liability:

- The taxpayer's return filed for the prior taxable year must have shown at least some amount of tax liability (an amount greater than zero); and
- The taxpayer's return filed for the prior taxable year must have been for a period of twelve months.

Taxpayers required to make Arizona corporate estimated tax payments should use the 2002 Form 120W, *Estimated Tax Worksheet for Corporations*, to compute the required installments. REFER TO THE 2002 FORM 120W AND ITS INSTRUCTIONS BEFORE COMPLETING THE 2002 FORM 120ES.

**ESTIMATED TAX PAYMENTS BY ELECTRONIC FUNDS TRANSFER.** Refer to ARS § 42-1129 and the related Arizona Administrative Code rules (AAC R15-10-301 through R15-10-307) for detailed information regarding electronic funds transfer.

Effective for taxable years beginning on or after January 1, 1997, taxpayers whose Arizona corporate income tax liability for the preceding taxable year was \$20,000 or more must make Arizona corporate estimated tax payments via the electronic funds transfer program. If the taxpayer makes its estimated tax payments by electronic funds transfer (EFT), the taxpayer should not submit the Form 120ES to the department.

Taxpayers required to make estimated tax payments via electronic funds transfer must complete the department's electronic funds transfer authorization agreement at least 30 days prior to initiation of the first applicable transaction.

Taxpayers whose Arizona corporate income tax liability for the preceding taxable year was less than \$20,000 may elect voluntary participation in the electronic funds transfer program. Voluntary participants in the program must complete the department's electronic funds transfer authorization agreement at least 30 days prior to the first applicable transaction.

Obtain additional information concerning the Arizona electronic funds transfer program by contacting the EFT Helpline at (602) 542-2040 in Phoenix or at (800) 572-7037 (toll-free). The FAX line is (602) 542-3605.

### Extension of Time To File a Return

A request for an Arizona extension of time to file a corporate income tax return is made by filing a completed Form 120EXT by the original due date of the return. The taxpayer can use a valid federal extension rather than applying for an Arizona extension. The Form 120EXT must be used to transmit any extension payments, whether the taxpayer uses a valid federal extension or requests an Arizona extension. If the taxpayer uses a FEDERAL extension, the taxpayer must check the federal extension box on page 1 of the return. If the taxpayer uses an ARIZONA extension, the taxpayer must attach a copy of the Arizona extension to the front of the return.

The taxpayer must pay 90 percent of the tax liability by the original due date of the return. The department imposes the extension underpayment penalty on any late or underpaid extension payments.

The department grants an Arizona extension for a period of six months. Arizona law provides that six months is the maximum extension of time to file that the department may grant. However, Arizona law provides that the department may accept the federal extension for the same period as covered by the federal extension.

### Penalties and Interest

**A. Late Filing Penalty.** A return filed after the original due date is subject to the late filing penalty unless the taxpayer has a valid federal or Arizona extension. If the taxpayer uses a FEDERAL extension, the taxpayer must check the federal extension box on page 1 of the return. If the taxpayer uses an ARIZONA extension, the taxpayer must attach a copy of the

Arizona extension to the return. A return filed after its extended due date is also subject to the late filing penalty. The late filing penalty is 4½ percent (.045) of the amount of tax required to be shown on the return. "Amount of tax required to be shown on the return" is the amount of tax imposed less the amount of any part of the tax paid on or before the beginning of the month and the amount of any credit against the tax which may be claimed on the return. The penalty period is each month or fraction of a month between the due date of the return and the date the taxpayer filed the return. The maximum penalty is 25 percent of the tax found to be remaining due.

**B. Extension Underpayment Penalty.** A return filed without an attached Arizona extension (if the taxpayer uses an Arizona extension) is subject to the extension underpayment penalty. A return filed without a check in the federal extension box on page 1 of the return (if the taxpayer uses a federal extension) is subject to the extension underpayment penalty. The taxpayer must pay 90 percent of the tax liability disclosed by the taxpayer's return on or before the original due date of the return. The department imposes the extension underpayment penalty on any late or underpaid extension payments. The extension underpayment penalty is one-half of one percent (.005) of the tax not paid. The penalty period is each 30 day period or fraction thereof between the original due date of the return and the date the taxpayer paid the tax. The maximum penalty is 25 percent of the tax not paid.

**C. Late Payment Penalty.** The department imposes the late payment penalty on any amount shown as tax on a return that is not paid by the date prescribed for its payment. The late payment penalty is one-half of one percent (.005) of the unpaid tax for each month or fraction of a month that the tax remains unpaid, not to exceed 10 percent of the unpaid tax. "Amount of tax shown on the return" is the amount of tax imposed shown on the return less the amount of any part of the tax paid on or before the beginning of the month and the amount of any credit against the tax which may be claimed on the return.

**NOTE:** *If two or more of the penalties described in A, B, or C apply, the maximum combined penalty is 25 percent.*

**D. Interest.** The department assesses interest on any portion of the tax, whether determined by the department or the taxpayer, not paid by the date prescribed for its payment. The department applies interest, compounded annually, in the same manner and at the same times as prescribed by Internal Revenue Code § 6621 with the following exception.

**Exception:** The Arizona rate of interest for both underpayments and overpayments *for all taxpayers* is the federal underpayment rate under IRC § 6621(a)(2) [the federal short-term rate, determined pursuant to IRC § 6621(b), plus three percentage points]. On January 1 of each year, the department adds any interest outstanding as of that date to the principal amount of the tax. It is then a part of the principal amount of the tax and accrues interest until paid.

**E. Underpayment of Estimated Tax Penalty.** The department imposes the underpayment of estimated tax penalty on any late payment or underpayment of a required

installment of estimated tax. Refer to Form 220 for further details. The penalty imposed is the penalty prescribed by ARS § 43-582 for the applicable period.

### Furnishing Data

Corporations must attach a copy of the federal return (along with all schedules and attachments) to the Arizona return.

Do not send in a blank Arizona return with a copy of the federal return; the return will not process accurately. Taxpayers must furnish complete data. Answer all questions on the return. Complete all applicable schedules and attach all appropriate supplementary schedules.

### Filing Amended Returns

Any taxpayer who files an amended return with the Internal Revenue Service must file an Arizona amended return on Form 120X within 90 days.

The taxpayer must report changes or corrections of the taxpayer's taxable income by the Internal Revenue Service or as the result of renegotiation of a contract or subcontract with the United States to the department. The taxpayer must, within 90 days after the final determination of the change or correction, either:

- File a copy of the final determination with the department, concede the accuracy of the determination or state any errors, and request the department to recompute the tax owed to Arizona; or
- File an amended return as required by the department.

The taxpayer must include additional schedules that provide sufficient information for the department to recompute the taxpayer's Arizona taxable income based on the Revenue Agent Report (RAR) changes. The department may require the taxpayer to file an amended return if the department does not have the necessary information to recompute the tax owed to Arizona.

### Records

Every corporation should maintain books and records substantiating information reported on the return and keep these documents for inspection. Arizona General Tax Ruling GTR 96-1 discusses the general requirements for the maintenance and retention of books, records, and other sources of information received, created, maintained, or generated through various computer, electronic, and imaging processes and systems. Refer to this tax ruling for further information.

### Use of Federal Figures

To calculate its Arizona taxable income, each corporation must compute its federal taxable income and make the adjustments required by Arizona law. (Refer to Article 3, Chapter 11, Title 43, of the Arizona Revised Statutes.)

The department requires a combined return for all corporations which comprise a unitary business and are subject to federal income tax. The combined return includes any unitary foreign corporation (see ARS § 43-1101) which is itself subject to the Arizona income tax and federal income tax.

An affiliated group of corporations that files a federal consolidated return may elect to file an Arizona consolidated return. A consolidated return includes foreign corporations

(see ARS § 43-1101) that are members of an affiliated group that elects to file a consolidated return.

### IRC § 7519 Required Payments

Taxpayers cannot deduct the federal required payments on their Arizona tax returns as an ordinary and necessary business expense or otherwise.

## Specific Instructions

Type or print the required information in the name, address, and information boxes on the top of page 1.

- If this is a *consolidated return*, enter the common parent corporation's name and address. The name for a consolidated return should include the phrase "and subsidiaries."
- If this is a *combined return*, enter the name and address of the corporation under which the group is filing. The name for a combined return should include either the phrase "and unitary subsidiaries" or "and unitary affiliates," whichever is applicable.

Indicate the period covered by the taxable year on page 1 of the return (in an MM/DD/YYYY format) and whether the taxable year is a calendar year or a fiscal year.

Enter the corporation's federal employer identification number, which is the taxpayer identification number (TIN).

- If this is a *consolidated return*, enter the TIN of the common parent corporation.
- If this is a *combined return*, enter the TIN of the corporation under which the group is filing.

Enter the Arizona withholding tax number and Arizona transaction privilege tax number for the corporation.

- If this is a *consolidated return*, enter the common parent corporation's Arizona withholding tax number and Arizona transaction privilege tax number. If the common parent does not have an Arizona withholding tax number or Arizona transaction privilege tax number, leave these boxes blank.
- If this is a *combined return*, enter the Arizona withholding tax number and Arizona transaction privilege tax number of the corporation under which the group is filing. If this corporation does not have an Arizona withholding tax number or Arizona transaction privilege tax number, leave these boxes blank.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). Taxpayers that fail to include their TIN may be subject to a penalty. Paid tax return preparers must include their TIN where requested. The TIN for a paid tax return preparer is the individual's social security number, or preparer identification number or the federal employer identification number of the business. Paid tax return preparers that fail to include their TIN may be subject to a penalty.

## Arizona Taxable Income Computation

### Line 1 - Taxable Income Per Federal Return

Enter taxable income as reported on the federal income tax return filed with the Internal Revenue Service.

## Line 2 - Additions to Taxable Income

Enter total adjustments from page 2, Schedule A, line A11. See instructions for Schedule A.

## Line 4 - Subtractions From Taxable Income

Enter total adjustments from page 2, Schedule B, line B11. See instructions for Schedule B.

## Line 5 - Adjusted Income

Subtract line 4 from line 3 and enter the difference.

*Wholly Arizona corporations* - SKIP lines 6 through 12.

*Multistate corporations* - COMPLETE lines 6 through 12.

## Lines 6 Through 12 - Apportionment Computation (Multistate Taxpayers Only)

Any corporation that has income from business activity that is taxable both within and without Arizona must allocate and apportion its net income. The corporation must allocate and apportion its net income according to the Uniform Division of Income for Tax Purposes Act (UDITPA), ARS §§ 43-1131 through 43-1150. A unitary group of corporations or an Arizona affiliated group must also allocate and apportion its net income.

A corporation that has income from business activity taxable in more than one state is a "multistate corporation." A corporation that has income from business activity that is taxable entirely within Arizona is a "wholly Arizona corporation."

*Wholly Arizona corporations* - do not complete these lines.

*Multistate corporations* - refer to the instructions for Schedules ACA, C, D, and E for more detailed information before completing these lines. Do not enter an amount on page 1, line 9, before reading the instructions for Schedules ACA and C. The taxpayer must carry out the decimal on line 9 to six places.

## Line 13 - Arizona Income Before NOL

*Wholly Arizona corporations* - enter the amount from line 5.

*Multistate corporations* - enter the amount from line 12.

## Line 14 - Arizona Basis Net Operating Loss Carryforward

Enter unused net operating losses attributable to Arizona for the last five taxable years. This amount should not exceed the amount on line 13.

If the corporation incurred losses in prior taxable years, the corporation can apply these losses against current Arizona income. A net operating loss carryforward applies to the next five succeeding taxable years, subject to certain adjustments and rules. (Refer to ARS § 43-1123 and Arizona Administrative Code rule AAC R15-2D-302.)

**NOTE:** Attach a separate schedule showing the computation of the loss carried forward.

Arizona Corporate Tax Rulings CTR 91-2, CTR 94-11 and CTR 99-3 discuss the calculation of an Arizona net operating loss carryforward when the method of filing changes.

Refer to CTR 91-2 for corporations which change their method of filing from separate company to combined or from combined to separate company.

Refer to CTR 94-11 for corporations which change their method of filing from separate company or combined to consolidated. This ruling also discusses the calculation of the net operating loss carryforward for a consolidated return when one or more corporations cease to be members of the affiliated group.

Refer to CTR 99-3 for a discussion of the calculation of an Arizona net operating loss carryforward from taxable years outside the statute of limitations when the taxpayer used an incorrect filing method. This ruling applies to situations where a group of corporations filed on a separate company basis but should have filed on a combined basis or vice versa.

## Arizona Tax Liability Computation

### Line 16 - Arizona Tax

Multiply the Arizona taxable income (page 1, line 15) by 6.968 percent. If the computed amount of tax is less than \$50, enter the minimum tax of \$50.

*Combined or consolidated returns:* A unitary group or an Arizona affiliated group is considered a single taxpayer. The minimum tax is imposed on the single taxpayer rather than on each corporation within the group.

### Line 17 - Tax From Recapture of Tax Credits

Enter the amount of tax due from recapture of the environmental technology facility credit, the alternative fuel vehicle credit and the neighborhood electric vehicle credit from Form 300, Part II, line 26.

### Line 18 - Subtotal

Add lines 16 and 17. This is the amount of tax to which the Clean Elections Fund tax reduction and the total amount of tax credits claimed by the taxpayer may be applied.

### Line 19 - Clean Elections Fund Tax Reduction

Check the box on line 19 to send five dollars to the Clean Elections Fund and reduce the tax amount on line 18 by five dollars. Enter the amount of the tax reduction (five dollars) on line 19.

### Line 20 - Nonrefundable Tax Credits

Enter the allowable nonrefundable tax credit amount from Form 300, Part II, line 50. This amount cannot be larger than the amount on line 18 less the amount on line 19. Do not include refundable tax credits or the retroactive consolidation tax payment credit on this line.

- **Defense Contracting Credits.** There are two tax credits for qualified defense contractors. Qualified defense contractors may claim a tax credit for net increases in employment positions under United States Department of Defense contracts and in private commercial employment positions. There is also a tax credit for property taxes paid by a qualified defense contractor. Complete Form 302 to claim these tax credits.

- **Enterprise Zone Credit.** Taxpayers located in an enterprise zone may claim a credit for net increases in qualified employment positions. Effective for taxable years beginning from and after December 31, 2000, taxpayers may not claim the credit for qualified employment positions at a business location where more than 10 per cent of the business conducted at the location consists of selling tangible personal property at retail, measured by the number of employees assigned to retail at the location in the zone. Effective for taxable years beginning from and after December 31, 1997, the credit for previously qualified employees and previously dislocated workers is limited to the available credit carryover. Complete Form 304 to claim this tax credit.
- **Environmental Technology Facility Credit.** This tax credit is for costs incurred in constructing a qualified environmental technology manufacturing, producing, or processing facility as described in ARS § 41-1514.02. Complete Form 305 to claim this tax credit.
- **Military Reuse Zone Credit.** This tax credit is for net increases in employment of full-time employees working in a military reuse zone established under Arizona law. The employees must primarily engage in providing aviation or aerospace services or in manufacturing, assembling, or fabricating aviation or aerospace products. Complete Form 306 to claim this tax credit.
- **Recycling Equipment Credit.** This tax credit has been repealed effective for taxable years beginning from and after December 31, 1999. Taxpayers may claim carryovers of unused tax credits from taxable years beginning prior to January 1, 2000. Complete Form 307 to claim the carryover of this tax credit.
- **Credit for Increased Research Activities.** This tax credit is for taxpayers who incur qualified research expenses for research conducted in Arizona. The credit applies to taxable years beginning from and after December 31, 2000. Complete Form 308 to claim this tax credit.
- **Agricultural Water Conservation System Credit.** This tax credit has been repealed effective for taxable years beginning from and after December 31, 1999. Taxpayers may claim carryovers of unused tax credits from taxable years beginning prior to January 1, 2000. Complete Form 312 to claim the carryover of this tax credit.
- **Alternative Fuel Vehicle (AFV) Credit.** Taxpayers may claim carryovers of unused nonrefundable tax credits from taxable years 1996 through 1999 on this line. Taxpayers must claim the refundable tax credit on line 25. Complete Form 313 to claim the carryover of this tax credit.
- **Underground Storage Tanks Credit.** This tax credit is for expenses incurred by a corporate taxpayer not liable or responsible for corrective actions required due to the release of a regulated substance. The credit applies to taxable years beginning from and after December 31, 1993. The law provides no carryforward for this tax credit. Complete Form 314 to claim this tax credit.
- **Pollution Control Credit.** This tax credit is for expenses incurred during the taxable year to purchase real or personal property used in the taxpayer's trade or business in Arizona to control or prevent pollution. The credit applies to taxable years beginning from and after December 31, 1994. Complete Form 315 to claim this tax credit.
- **Construction Materials Credit.** This tax credit has been repealed effective for taxable years beginning from and after December 31, 1999. Taxpayers may claim carryovers of unused tax credits from taxable years beginning prior to January 1, 2000. Complete Form 316 to claim the carryover of this tax credit.
- **Credit for Taxes Paid for Coal Consumed in Generating Electrical Power.** This tax credit is for a percentage of the amount paid by the seller or purchaser as transaction privilege tax or use tax for coal sold to the taxpayer that is consumed in the generation of electrical power in Arizona. "Amount paid by the seller or purchaser as transaction privilege tax or use tax" means that the Arizona transaction privilege tax was passed through to the taxpayer by the seller as an added charge or that the seller collected the Arizona use tax from the taxpayer or that the taxpayer paid the Arizona use tax to the department. The credit applies to taxable years beginning from and after December 31, 1997. Complete Form 318 to claim this tax credit.
- **Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets.** This tax credit is for the installation of solar hot water heater plumbing stub outs and electric vehicle recharge outlets in houses or dwelling units constructed by the taxpayer. The houses or dwelling units must be located in Arizona. The tax credit applies to taxable years beginning from and after December 31, 1997. Complete Form 319 to claim this tax credit.
- **Credit for Employment of TANF Recipients.** This tax credit is for net increases in qualified employment for recipients of the temporary assistance for needy families (TANF) who are residents of Arizona. This tax credit applies to taxable years beginning from and after December 31, 1997. Complete Form 320 to claim this tax credit.
- **Credit for Donation of Motor Vehicle to Wheels to Work Program.** This tax credit is for the fair market value of any motor vehicle donated by the taxpayer to the wheels to work program established by ARS § 46-142. The credit applies to taxable years beginning from and after December 31, 1998. The law provides no carryforward for this tax credit. Complete Form 324 to claim this tax credit.
- **Agricultural Pollution Control Equipment Credit.** This tax credit is for expenses incurred during the taxable year to purchase tangible personal property that is primarily used in the taxpayer's business in Arizona to control or prevent pollution. The taxpayer must be involved in the commercial production of livestock, livestock products or agricultural, horticultural, viticultural, or floricultural crops or products

in Arizona. The credit applies to taxable years beginning from and after December 31, 1998. Complete Form 325 to claim this tax credit.

- **Credit for Alternative Fuel Delivery Systems.** Taxpayers may claim carryovers of unused nonrefundable tax credits from taxable years 1996 through 1999 on this line. Taxpayers must claim the refundable tax credit on line 25. Complete Form 326 to claim this tax credit.
- **Vehicle Refueling Apparatus Credit.** Taxpayers may claim the carryover of the unused nonrefundable tax credit from taxable year 1999 on this line. Taxpayers must claim the refundable tax credit on line 25. Complete Form 327 to claim this tax credit.
- **Neighborhood Electric Vehicle (NEV) Credit.** This tax credit is for the purchase or lease of new neighborhood electric vehicles. The tax credit cannot be claimed for a taxable year ending after December 31, 2001. Complete Form 328 to claim this tax credit.
- **Credit for Donation of School Site.** This new tax credit is for the donation of real property and improvements to an Arizona school district or Arizona charter school for use as a school or as a site for the construction of a school. The credit applies to taxable years beginning from and after December 31, 2000. Complete Form 331 to claim this tax credit.

Complete the appropriate credit forms for each tax credit. Attach the completed credit forms to the tax return with Form 300.

### Line 21 - Credit Type

Indicate which nonrefundable tax credits were claimed on line 20 by writing the applicable form number(s) in the space provided.

Nonrefundable Income Tax Credit	Form
Defense Contracting Credits	302
Enterprise Zone Credit	304
Environmental Technology Facility Credit	305
Military Reuse Zone Credit	306
Recycling Equipment Credit	307
Credit for Increased Research Activities	308
Agricultural Water Conservation System Credit	312
Alternative Fuel Vehicle (AFV) Credit	313
Underground Storage Tanks Credit	314
Pollution Control Credit	315
Construction Materials Credit	316
Credit for Taxes Paid for Coal Consumed in Generating Electrical Power	318
Credit for Solar Hot Water Heater Plumbing Stub Outs and Electric Vehicle Recharge Outlets	319
Credit for Employment of TANF Recipients	320
Credit for Donation of Motor Vehicle to Wheels to Work Program	324
Agricultural Pollution Control Equipment Credit	325
Credit for Alternative Fuel Delivery Systems	326
Vehicle Refueling Apparatus Credit	327
Neighborhood Electric Vehicle (NEV) Credit	328
Credit for Donation of School Site	331

### Line 22 - Arizona Tax Liability

Subtract the sum of lines 19 and 20 from line 18. Line 22 cannot be a negative amount.

### Line 23 - Clean Elections Fund Tax Credit

A taxpayer MAY CLAIM a tax credit on the 2001 tax return for:

- A donation made directly to the Clean Elections Fund during the taxable year 2001; and/or
- A donation made to the Clean Elections Fund on the taxpayer's 2000 tax return.

The 2001 tax credit is equal to the amount of the donation(s), but cannot exceed twenty percent of the tax on line 22 or five hundred thirty dollars, whichever is higher.

A taxpayer MAY NOT CLAIM a tax credit on the 2001 tax return for a donation to the fund made with the 2001 tax return (on line 35). If a taxpayer makes a donation to the fund on the 2001 tax return (line 35), the taxpayer may only claim a tax credit for the donation on the taxpayer's 2002 tax return.

The tax credit is nonrefundable and the unused portion of the tax credit may not be carried forward.

Calculation of 2001 Clean Elections Fund Tax Credit			
1.	Enter the amount donated directly to the fund during the taxable year 2001 PLUS the amount donated to the fund with the 2000 Form 120.	\$	00
2.	Enter tax from 2001 Form 120, line 22.	\$	00
3.	Multiply amount on line 2 by 20 percent (.20).	\$	00
4.		\$	530 00
5.	Enter the larger of line 3 or line 4.	\$	00
6.	Enter the smaller of line 1, line 2, or line 5 here and on 2001 Form 120, line 23.	\$	00

### Tax Payments

### Line 25 - Refundable Tax Credits

Enter the total of the amounts from Form 313, Part XI, line 58, and Part XII, line 60; Form 326, Part VIII, line 44; and Part IX, line 46; Form 327, Part VII, line 33; and Part VIII, line 35; Form 329, Part IV, line 9; and Form 330, Part IV, line 9.

- **Alternative Fuel Vehicle (AFV) Credit.** Taxpayers may claim the refundable credit for taxable year 2001 and/or the refund installment from taxable year 2000 on this line. The tax credit cannot be claimed for a taxable year ending after December 31, 2001. Complete Form 313 to claim this tax credit.
- **Credit for Alternative Fuel Delivery Systems.** Taxpayers may claim the refundable credit for taxable year 2001 and/or the refund installment from taxable year 2000 on this line. Complete Form 326 to claim this tax credit.
- **Vehicle Refueling Apparatus Credit.** Taxpayers may claim the refundable credit for taxable year 2001 and/or the refund installment from taxable year 2000 on this line. Complete Form 327 to claim this tax credit.
- **Employer Credit for Technology Training.** This new refundable tax credit is for expenses incurred by the taxpayer for providing qualified technology training to a

maximum of twenty of its employees. The credit applies to taxable years beginning from and after December 31, 2000. Complete Form 329 to claim this tax credit.

- **Credit for Participation in Agricultural Preservation District.** This new refundable tax credit is for the conveyance of ownership or development rights of class two property owned by the taxpayer to an agricultural preservation district. The credit applies to taxable years beginning from and after December 31, 2000. Complete Form 330 to claim this tax credit.

### Line 26 - Credit Type

Indicate which refundable tax credits were claimed on line 25 by writing the applicable form number(s) in the space provided. Attach the completed credit forms to the tax return.

Refundable Income Tax Credit	Form
Alternative Fuel Vehicle (AFV) Credit	313
Credit for Alternative Fuel Delivery Systems	326
Vehicle Refueling Apparatus Credit	327
Employer Credit for Technology Training	329
Credit for Taxpayers Participating in Agricultural Preservation District	330

### Line 27 - Retroactive Consolidation Tax Payment Credit

Complete this line only if:

- The taxpayer has received a credit voucher from the department indicating the amount of the total overpayment credit from retroactive consolidation; **and**
- The taxpayer is filing this return for a taxable year beginning from and after June 30, 1995.

Enter the maximum allowable credit for the taxable year, which is the lesser of 10 percent of the total credit as determined by the department or the tax liability after the Clean Elections Fund tax credit and refundable tax credits (line 24 less line 25). If the tax liability after application of refundable tax credits is zero or a negative amount, enter zero on line 27.

### Lines 28 and 29 - Extension and Estimated Payments

Complete Schedule F, the schedule of tax payments. Enter totals on page 1, lines 28 and 29. See instructions for Schedule F.

### Line 30 - Total Payments

Add lines 25, 27, 28, and 29. Enter the total.

**NOTE FOR CLAIM OF RIGHT RESTORATION:** *If the tax for the taxable year 2001 was computed under the provisions for a claim of right restoration, line 30 also includes the credit for the tax reduction for prior taxable year(s). Refer to Arizona Corporate Tax Procedure CTP 95-3 for further information. Write "ARS § 43-1130.01" and the total amount of the tax reduction for prior taxable year(s) in the space to the left of the total payment amount entered on line 30. The amount entered on line 30 is the total of lines 25, 27, 28, 29 and the tax reduction for prior taxable year(s). Attach a schedule computing the tax reduction for the prior taxable year(s).*

## Computation of Total Due or Overpayment

### Line 31 - Balance of Tax Due

If the amount on line 24 is **larger** than the amount on line 30, there is a balance of tax due. Subtract line 30 from line 24 and enter the difference.

### Line 32 - Overpayment of Tax

If the amount on line 30 is **larger** than the amount on line 24, there is an overpayment of tax. Subtract line 30 from line 24 and enter the difference (as a positive number).

### Line 33 - Penalty and Interest

Calculate any penalty and interest due as a result of late filing, late payment of tax or extension underpayment of tax. Calculate interest on the amount shown on line 31 at the prevailing rate. The interest period is from the original due date of the return to the payment date. See the "Penalties and Interest" section on page 4 of these instructions. Do not include or enter the amount from Form 220.

### Line 34 - Underpayment of Estimated Tax Penalty

The taxpayer **DOES NOT HAVE TO COMPLETE** Form 220, *Underpayment of Tax by Corporations*, if the taxpayer made its estimated tax payments based on either of the following methods:

- An amount equal to 90 percent of the current taxable year's tax liability (reduced by the retroactive consolidation tax payment credit and claim of right adjustments, if applicable), paid in four equal installments; or
- An amount equal to 100 percent of the taxpayer's tax liability (reduced by the retroactive consolidation tax payment credit and claim of right adjustments, if applicable) for the prior taxable year, paid in four equal installments.

The department will compute the estimated tax penalty based on either of these methods and notify the taxpayer of any amount due. If the taxpayer elects to have the department compute the penalty, do not check the box on line 34 or enter an amount on line 34.

The taxpayer **MUST COMPLETE** Form 220, even though no penalty is due, if it made its estimated tax payments based on any of the following methods:

- The annualized income installment method; or
- The adjusted seasonal installment method; or
- The taxpayer is a large corporation that computed its first required installment based on the taxpayer's tax liability for the prior taxable year.

Enter the total penalty from Form 220, Part C, line 37. Attach the completed Form 220 to the return **and** check the box on line 34.

### Line 35 - Donation to Citizens Clean Elections Fund

Enter the amount of the donation to the fund made on this return.

### Line 36 - Total Due

If the taxpayer had a balance of tax due on line 31, add lines 31, 33, 34, and 35, and enter the total on line 36. This is the total amount due. Pay this amount when the taxpayer files the

return. Make the check payable to Arizona Department of Revenue and include the taxpayer's TIN on the check.

### Line 37 - Overpayment

If the taxpayer had an overpayment of tax on line 32, subtract the total of lines 33, 34, and 35 from line 32. Enter a positive difference on line 37. This is the total overpayment. If the difference is negative, enter the difference as a positive number on line 36.

### Line 38 - Overpayment Applied to Estimated Tax

The taxpayer may apply part or all of an overpayment reported on line 37 as a 2002 estimated tax payment. Enter the applicable amount on line 38.

### Line 39 - Refund

Subtract line 38 from line 37 and enter the result. This is the net refund amount.

## Schedule A - Additions to Taxable Income

On lines A1 through A10 of Schedule A, enter all income taxable under Arizona law that is exempt for federal tax purposes. Also enter all deductions allowed under federal law that are not allowed under Arizona law.

### Line A1 - Taxes Based on Income

Enter the amount of taxes based on income paid to states (INCLUDING ARIZONA), to foreign governments, or to their political subdivisions included in federal taxable income.

### Line A2 - Interest on Obligations

Enter the amount of federally tax exempt interest income on obligations of any state or foreign government, or their political subdivisions (except Arizona).

All taxpayers, except financial institutions as defined in ARS § 6-101, must reduce the amount of interest income by certain expenses. Reduce the amount of interest income by the amount of any interest on indebtedness and other related expenses incurred or continued to purchase or carry those obligations, that were not otherwise deducted or subtracted in the computation of Arizona gross income.

### Line A3 - Federal Special Deductions

Enter the special deductions claimed on the federal tax return for dividends received pursuant to IRC §§ 243, 244, and 245.

### Line A4 - Federal Net Operating Loss

Enter the federal net operating loss deduction claimed on the federal tax return.

### Line A5 - Federal Income Tax Refund

*Multistate corporations* – do not enter an amount on this line. See Schedule E, line E5.

*Wholly Arizona corporations* - enter the amount of any federal income tax refund for a prior taxable year that resulted in a tax benefit for Arizona income tax purposes. Include any federal Form 1139 refunds received that resulted in a tax benefit for Arizona tax purposes.

### Line A6 - Domestic International Sales Corporations

Enter the total amount of commissions, rentals, and other amounts paid or accrued to a Domestic International Sales Corporation (DISC) controlled by the payor corporation. Make this adjustment if the DISC does not have to report its taxable income to Arizona because its income is not derived from or attributable to sources within Arizona. "Control" means direct or indirect ownership or control of 50 percent or more of the voting stock of the DISC by the payor corporation.

No addition is required if:

- The payor corporation files an Arizona combined return with the DISC; or
- The DISC transactions comply with the IRC § 994 inter-company pricing provisions.

Refer to the Arizona Administrative Code rule (AAC R15-2D-303) for more detailed information, such as the treatment of expenses if the DISC files an Arizona return on a separate company basis and the treatment of the interest charge required under IRC § 995(f).

### Line A7 - Capital Investment by Qualified Defense Contractor

- **Federal Depreciation or Deduction for Cost of Capital Investment**

Enter the amount of depreciation deducted pursuant to IRC § 167 or the amount of expense deducted pursuant to IRC § 179. Make this adjustment if the taxpayer made an election, pursuant to ARS § 43-1024, to amortize the cost of any new device, machinery, equipment, or other capital investment. The taxpayer must use the device, machinery, equipment, or other capital investment exclusively for private commercial activities in Arizona.

- **Gain on Sale of Capital Investment**

Enter the amount of gain from the sale or other disposition of a capital investment which a qualified defense contractor elected to amortize pursuant to ARS § 43-1024.

### Line A8 - Claim of Right Adjustments

- **Amounts Repaid in Current Taxable Year**

Enter the amount of the deduction claimed under IRC § 1341(a)(4), for restoration of a substantial amount held under a claim of right, which was included in the computation of Arizona gross income.

- **Excess Federal Capital Loss Carryover Under a Claim of Right Restoration**

Enter the amount by which a capital loss carryover allowable pursuant to IRC § 1341(b)(5) exceeds the capital loss carryover allowable pursuant to ARS § 43-1130.01, subsection F.

### Line A9 - Additions Related to Arizona Tax Credits

Enter on line A9 the following additions to federal taxable income that are related to Arizona tax credits. Attach a schedule detailing these additions.

**A. Credit for Property Taxes Paid by a Qualified Defense Contractor**

Enter the amount paid as taxes on property located in Arizona included in the federal taxable income of a qualified defense contractor. Make this adjustment if the taxpayer elected to claim a credit under ARS § 43-1166 for such taxes.

**B. Environmental Technology Facility Credit**

- Excess Federal Depreciation or Amortization**

Enter the excess of depreciation or amortization computed on the federal basis of the facility over depreciation or amortization computed on the Arizona adjusted basis of the facility. Make this adjustment for the facility for which the taxpayer claimed a tax credit under ARS § 43-1169.

- Excess in Federal Adjusted Basis**

Enter the amount by which the federal adjusted basis of the facility exceeds the Arizona adjusted basis of the facility. Make this adjustment if the facility or any component of the facility for which the taxpayer claimed a tax credit under ARS § 43-1169 was sold or otherwise disposed of during the taxable year.

**C. Pollution Control Credit**

- Excess Federal Depreciation or Amortization**

Enter the excess of depreciation or amortization computed on the federal basis of the property over depreciation or amortization computed on the Arizona adjusted basis of the property. Make this adjustment for the property for which the taxpayer claimed a tax credit under ARS § 43-1170.

- Excess in Federal Adjusted Basis**

Enter the amount by which the federal adjusted basis of the property exceeds the Arizona adjusted basis of the property. Make this adjustment if the property for which the taxpayer claimed a tax credit under ARS § 43-1170 was sold or otherwise disposed of during the taxable year.

**D. Agricultural Pollution Control Equipment Credit**

- Excess Federal Depreciation or Amortization**

Enter the excess of depreciation or amortization computed on the federal basis of the property over depreciation or amortization computed on the Arizona adjusted basis of the property. Make this adjustment for the property for which the taxpayer claimed a tax credit under ARS § 43-1170.01.

- Excess in Federal Adjusted Basis**

Enter the amount by which the federal adjusted basis of the property exceeds the Arizona adjusted basis of the property. Make this adjustment if the property for which the taxpayer claimed a tax credit under ARS § 43-1170.01 was sold or otherwise disposed of during the taxable year.

**E. Credit for Employment of Temporary Assistance for Needy Families (TANF) Recipients**

Enter the amount of wage expenses deducted pursuant to the Internal Revenue Code for which the taxpayer claimed the TANF credit under ARS § 43-1175.

**F. Credit for Solar Hot Water Heater Plumbing Stub Outs or Electric Vehicle Recharge Outlets**

Enter the amount of expenses deducted in computing Arizona taxable income for the installation of solar hot water heater plumbing stub outs or electric vehicle recharge outlets for which the taxpayer claimed the credit under ARS § 43-1176.

**G. Credit for Donation of Motor Vehicle to Wheels to Work Program**

Enter the amount deducted pursuant to IRC § 170 for the donation of a motor vehicle to the wheels to work program for which the taxpayer claimed a tax credit under ARS § 43-1177.

**H. Credit for Taxes Paid for Coal Consumed in Generating Electrical Power in Arizona**

Enter the amount of expenses deducted pursuant to the Internal Revenue Code for which the taxpayer claimed the credit for taxes paid for coal consumed in generating electrical power in Arizona under ARS § 43-1178. The addition is required for the amount of Arizona transaction privilege taxes and Arizona use taxes included in the computation of federal taxable income for which the Arizona credit is claimed.

**I. Credit for Participation in Agricultural Preservation District**

Enter the amount deducted for conveying ownership or development rights of property to an agricultural preservation district pursuant to the Internal Revenue Code for which the taxpayer claimed the credit for participation in agricultural preservation district under ARS § 43-1180.

**J. Credit for Donation of School Site**

Enter the amount deducted pursuant to the Internal Revenue Code representing a donation of a school site for which the taxpayer claimed the credit for donation of school site under ARS § 43-1181.

**Line A10 - Other Additions to Federal Taxable Income**

Enter on line A10 the following "other additions" to federal taxable income. Attach a schedule detailing these additions.

**A. Excess of Partner's Share of Partnership Taxable Income or Loss**

Enter the excess of a partner's share of partnership taxable income included under ARS §§ 43-1401 through 43-1413 over the partner's share of income reported under IRC § 702(a)(8). Enter the excess of a partner's share of partnership losses determined according to IRC § 702(a)(8) over the losses allowable under ARS §§ 43-1401 through 43-1413.

**Wholly Arizona corporation** - If the amount on Form 165 Schedule K-1(NR), Part II, line 12, column (c), is positive, enter that amount here.

**Multistate corporation** – If the amount on Form 165, Schedule K-1(NR), Part II, line 12, column (c), from a *wholly Arizona partnership* is positive, enter that amount here. For a *multistate partnership*, add the amount on Form 165, Schedule K-1(NR), Part II, line 12, column (a), to the amount of any nonapportionable income (or loss) included in the schedule (for Part II, line 12, column (a)). If the total is positive, enter that amount here.

**B. Federal Exploration Expenses**

Enter the amount of IRC § 617 exploration expenses in excess of \$75,000 and the amount of such expenses deferred not in excess of \$75,000.

**C. Contributions**

Enter the amount of IRC § 170 contributions to an educational institution which denies admission, enrollment, or board and room accommodations on the basis of race, color, or ethnic background. Do not include contributions to institutions primarily established for the education of American Indians.

**D. Federal Amortization or Depreciation for Facilities and Equipment Amortized Under Arizona Law**

Enter the amount of amortization (for pollution control devices only) or depreciation deducted pursuant to the Internal Revenue Code for the following:

- **Pollution Control Devices** - If the taxpayer made an election to amortize pursuant to ARS § 43-1129.
- **Child Care Facilities** - If the taxpayer made an election to amortize pursuant to ARS § 43-1130.

**E. Expenses and Interest Relating to Income Not Taxed by Arizona**

Enter expenses and interest relating to income not taxed by Arizona. Refer to ARS § 43-961.5 or ARS § 43-1121.4.

**F. Arizona Income Tax Refunds**

Enter the amount of any Arizona income tax refunds received, to the extent that the refunds are not included in Arizona gross income, if a tax benefit was derived by the deduction of the taxes in a prior taxable year.

**G. Tax Exempt Insurance Company Loss**

Enter the loss of an insurance company exempt under ARS § 43-1201 to the extent included in computing Arizona gross income on a consolidated return pursuant to ARS § 43-947.

**Schedule B - Subtractions From Taxable Income**

On lines B1 through B10 of Schedule B, enter all income which is exempt from Arizona tax which is taxable under federal law. Also enter any deduction allowed under Arizona law which is not deductible for federal tax purposes.

**Line B1 - Dividends, 50 Percent or More Business in Arizona**

Enter dividends received from corporations subject to Arizona income tax which do 50 percent or more of their business in Arizona.

**Line B2 - Dividends From Controlled Domestic Corporations**

Enter dividend income received from a domestic corporation owned or controlled, directly or indirectly, by the recipient corporation. Do not include amounts here that were reported on line B1.

"Control" means direct or indirect ownership or control of 50 percent or more of the voting stock of the payor corporation by the recipient corporation. Dividends shall have the meaning provided in IRC § 316. **NOTE: Do not include IRC § 78 dividend income on line B2.**

**Line B3 - Foreign Dividend Gross-up**

Enter IRC § 78 ("Gross-up") dividends.

**Line B4 - Dividends From Foreign Corporations**

Enter the dividend income received from foreign corporations as defined in ARS § 43-1101.

**Line B5 - Dividends From DISC**

Enter any income from a Domestic International Sales Corporation (DISC) which federal law requires its shareholders to include in income. Refer to IRC § 995.

**Line B6 - Interest on U.S. Obligations**

Enter the interest on U.S. obligations not taxed by Arizona but subject to federal tax.

**Line B7 - Agricultural Crops Contributed to Charitable Organizations**

Arizona law allows a subtraction for qualified crop contributions made during the taxable year to one or more Arizona tax exempt charitable organizations for use in Arizona. Refer to Income Tax Procedure ITP 93-2 for information on how to determine if the contribution qualifies for the subtraction.

**Line B8 - Capital Investment by Qualified Defense Contractor**

• **Arizona Amortization of Cost of Capital Investment**

Enter the amount allowed by ARS § 43-1024 for amortization by a qualified defense contractor of a capital investment for private commercial activities.

• **Gain on Sale of Capital Investment**

Enter the amount of gain included in federal taxable income on the sale or other disposition of a capital investment. Make this adjustment if a qualified defense contractor elected to amortize the capital investment pursuant to ARS § 43-1024.

**Line B9 - Claim of Right Adjustment**

Enter the amount by which an Arizona capital loss carryover allowable pursuant to ARS § 43-1130.01, subsection F, exceeds the federal capital loss carryover allowable pursuant to IRC § 1341(b)(5).

**Line B10 - Other Subtractions From Federal Taxable Income**

Enter on line B10 the following "other subtractions" from federal taxable income. Attach a schedule detailing these subtractions.

**A. Arizona Capital Losses**

Enter net capital losses up to \$1,000 which are deductible for Arizona tax purposes but are not deductible for federal tax purposes. Arizona law allows this subtraction for an Arizona capital loss carryover only from taxable years beginning before January 1, 1988.

**B. Refunds of Taxes Based on Income**

Enter any refunds from states (INCLUDING ARIZONA) and from foreign governments or their political subdivisions included in federal taxable income.

**C. Excess of Partner's Share of Partnership Income or Loss**

Enter the excess of a partner's share of income included under IRC § 702(a)(8) over the income included under ARS §§ 43-1401 through 43-1413. Enter the excess of a partner's share of partnership losses determined according to ARS §§ 43-1401 through 43-1413, over the losses allowable under IRC § 702(a)(8).

**Wholly Arizona corporation** - If the amount on Form 165, Schedule K-1(NR), Part II, line 12, column (c), is negative, enter that amount here.

**Multistate corporation** - If the amount on Form 165, Schedule K-1(NR), Part II, line 12, column (c), from a *wholly Arizona partnership* is negative, enter that amount here. For a *multistate partnership*, add the amount on Form 165, Schedule K-1(NR), Part II, line 12, column (a), to the amount of any nonapportionable income (or loss) included in the schedule (for Part II, line 12, column (a)) attached to the Schedule K-1(NR). If the total is negative, enter that amount here.

**D. Expense Recapture, Mine Explorations**

Enter any expense recapture for mine exploration expenses included in income under federal law (refer to IRC § 617).

**E. Deferred Exploration Expenses**

Arizona law allows a subtraction for exploration expenses added to Arizona gross income on line A10, item B (refer to ARS § 43-1121, paragraph 8). The taxpayer claims the subtraction on a ratable basis as the units of produced ores or the minerals discovered or explored by reason of such expenditures are sold. Refer to Arizona Administrative Code rule AAC R15-2D-305 for detailed information regarding additional requirements.

Treat property sold in the same manner and on the same basis as other property held for the production of income. (Refer to ARS § 43-1021, paragraph 8 or to ARS § 43-1022, paragraph 11.)

**F. Exploration Expenses; Oil, Gas or Geothermal Resources**

Enter exploration expenses related to exploration of oil, gas, or geothermal resources. Compute the expenses in the same manner and on the same basis as a deduction for mine

exploration under IRC § 617. The computation is subject to certain adjustments shown above for line A10, item B, and line B10, items D and E. Refer to Arizona Administrative Code rule AAC R15-2D-305 for detailed information regarding additional requirements.

**G. Arizona Amortization of Facilities and Equipment**

- Pollution Control Devices**

Any taxpayer may choose to amortize the adjusted basis of any device, machinery, or equipment used for collection and control of the source of atmospheric and water pollutants and contaminants. The taxpayer may take the subtraction over a period of 60 months.

If a taxpayer chooses not to amortize pollution control devices over a period of 60 months, the taxpayer may take a deduction for depreciation computed under IRC § 167.

Refer to Arizona Administrative Code rule AAC R15-2D-306 for detailed information regarding additional requirements.

- Cost of Child Care Facilities**

Any taxpayer operating a child care facility for profit may elect to subtract any expenditure made to purchase, construct, renovate, or remodel the facilities or equipment. The taxpayer may take the subtraction ratably over 60 months beginning with the month in which the taxpayer places the property in service.

Any taxpayer operating a child care facility within Arizona, primarily for its employees' children, may elect to subtract expenditures made to acquire, construct, renovate, or remodel the facilities or equipment. The taxpayer may take the subtraction over a period of 24 months, beginning with the month in which the taxpayer places the property in service.

The amortization is in lieu of federal depreciation or amortization on the facilities.

Refer to Arizona Administrative Code rule AAC R15-2D-307 for detailed information regarding additional requirements.

**H. Interest on Federally Taxable Arizona Obligations**

Enter the amount of interest income received on obligations of the State of Arizona, or any of its political subdivisions, included in federal taxable income. Omit interest income received on obligations of the State of Arizona, or any of its political subdivisions, exempt from federal taxation and not included in Arizona gross income.

Corporations should not make this adjustment on the corporation's Arizona tax return for such income included in the corporate partner's share of partnership income (or loss). The partnership makes this adjustment on the Form 165. The adjustment to Arizona basis from Form 165 Schedule K-1(NR), Part II, line 12, already includes this adjustment.

**I. Expenses and Interest Relating to Tax Exempt Income**

Enter expenses and interest relating to tax exempt income disallowed pursuant to IRC § 265 in the computation of

Arizona gross income. Effective for taxable years beginning from and after December 31, 1996, this subtraction applies only to financial institutions as defined in ARS § 6-101.

#### J. Tax Exempt Insurance Company Income

Enter the income of an insurance company exempt under ARS § 43-1201 to the extent included in computing Arizona gross income on a consolidated return pursuant to ARS § 43-947.

#### K. Employer Contributions to Medical Savings Accounts

Enter the amount of contributions made by the taxpayer during the taxable year to medical savings accounts established on behalf of the taxpayer's employees as provided by ARS § 43-1028. The subtraction is allowed for such contributions to the extent that the contributions are not deductible by the taxpayer under the Internal Revenue Code.

#### L. Expenses Related to Certain Federal Tax Credits

Enter the amount of wages or salaries paid or incurred by the taxpayer for the taxable year not deducted in the computation of Arizona gross income if the taxpayer received certain federal tax credits. The specific federal tax credits are the work opportunity credit, the empowerment zone employment credit, the credit for employer-paid social security taxes on employee cash tips, and the Indian employment credit. This subtraction applies to taxable years beginning from and after December 31, 1996.

### Schedule ACA – Air Carrier Apportionment Formula (Multistate Air Carriers Only)

ARS §§ 43-1131 through 43-1150 govern the apportionment of income. A corporation or a unitary group of corporations or an Arizona affiliated group that engages in activities both within and without Arizona must apportion its business income.

Effective for taxable years beginning from and after December 31, 2000, ARS § 43-1139 requires a taxpayer that is a qualifying air carrier to use an alternate apportionment method to apportion its business income to Arizona. The taxpayer must complete Schedule ACA. Do not complete Schedule C.

The taxpayer must be engaged in air commerce. "Air commerce" means transporting persons or property for hire by aircraft in interstate, intrastate or international transportation. If the taxpayer files a combined or consolidated return, the combined group or the Arizona affiliated group must use this method of apportionment if 50 percent or more of the group's gross income is derived from air commerce. The group will apportion its business income by means of a single apportionment ratio computed under this method for all group members.

### Schedule C - Apportionment Formula (Non-Air Carrier Multistate Taxpayers Only)

ARS §§ 43-1131 through 43-1150 govern the apportionment of income. A corporation or a unitary group of corporations or an Arizona affiliated group that engages in activities both within and without Arizona must apportion business income.

The taxpayer (other than a multistate air carrier) must base the apportionment on property, payroll, and sales in Arizona as compared with everywhere. "Everywhere" means the property, payroll, and sales factors related to the whole unitary business or the business activities of the Arizona affiliated group. The everywhere factors are limited to the factors of the corporation(s) included in this return. Refer to Arizona Administrative Code rules AAC R15-2D-101 through AAC R15-2D-903.

A combined return excludes the factors of a unitary foreign corporation unless the foreign corporation is itself subject to the Arizona corporate income tax. A consolidated return includes the factors of a foreign corporation that is a member of the affiliated group, but excludes the factors of an insurance company exempt under ARS § 43-1201.

**NOTE:** ARS § 43-1139 (*Allocation of business income*) provides that the apportionment ratio is a fraction. The numerator of the fraction is the property factor plus the payroll factor plus two times the sales factor. The denominator of the fraction is four.

When the taxpayer uses the apportionment method, complete lines 6 through 12 on page 1.

#### ADMINISTRATIVE RELIEF REQUESTS

ARS § 43-1148 provides administrative relief if the allocation and apportionment provisions of UDITPA do not fairly represent the extent of the taxpayer's business activity in this state. **The taxpayer may petition for or the department may require**, in respect to all or any part of the taxpayer's business activity, if reasonable:

- Separate accounting, except with respect to an Arizona affiliated group, as defined in ARS § 43-947.
- The exclusion of any one or more of the factors.
- The inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this state.
- The employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income, other than disallowance of a properly elected consolidated return.

This section permits a departure from the allocation and apportionment provisions only in limited and specific cases. ARS § 43-1148 may be invoked only in specific cases where unusual fact situations produce incongruous results under the apportionment and allocation provisions.

**Taxpayers seeking such relief should submit a letter to the Corporate Income Tax Audit Section 60 days prior to the filing of the return setting forth the relief that is requested and the justification for the relief.**

**The department normally makes such determinations only upon audit of the taxpayer. Such a detailed examination of the specific facts and circumstances reveals whether such unusual fact situations and incongruous results exist.**

**Line C1 - Property Factor**

The value of tangible personal property and real property owned by the taxpayer is its original cost. The taxpayer normally determines the average value of its owned property by averaging the values at the beginning and ending of the tax period. Refer to Arizona Corporate Tax Ruling CTR 01-2 regarding the treatment of computer software in the property factor (whether to include it and attribution to particular state(s) in the numerator).

The value of tangible personal property and real property rented by the taxpayer is eight times its net annual rental rate. The net annual rental rate is the annual rental rate paid by the taxpayer for rented property, less the aggregate annual subrental rates paid by subtenants of the taxpayer. The taxpayer automatically achieves averaging for rented property by the method of determining the net annual rental rate of such property.

Report real property situated and tangible personal property permanently located in Arizona as property within Arizona. Allocate the value of mobile property to Arizona based on the total time that the property was within Arizona.

**Line C2 - Payroll Factor**

Report salaries, wages, or other compensation of officers, employees, etc., as within Arizona if performance of the services occurs here. This rule applies regardless of where payment is made or control exercised. This rule also applies regardless of whether the performance of the services is partly or wholly in connection with the apportionable business carried on outside the state or in interstate or foreign commerce.

Allocate the compensation of officers and employees who perform services partly within and partly without Arizona to this state when:

- The services performed outside of Arizona are incidental to the employee's service within Arizona; or
- The employee's base of operation is in Arizona; or
- The employee has no base of operation in any state but the direction or control of the employee is from Arizona; or
- The employee has no base of operation in any state, and there is no direction or control from a state in which the employee performs some part of his services, but the employee's residence is in Arizona.

**Line C3 - Sales Factor**

"Sales" includes all gross receipts from transactions and activities in the course of the regular trade or business that produce income. Determine sales within Arizona on a destination sales basis.

Arizona Corporate Tax Ruling CTR 99-4 discusses the treatment of income from the investment and reinvestment of short-term securities in the sales factor.

**NOTE:** Multiply the amount entered on line C3(c), column A, the total Arizona sales, by 2 (double weighted sales factor on line C3(d), column A). Enter the amount on line C3(e), column A. Do not double the amount entered on line C3(e), column B, the everywhere sales of the taxpayer.

**EXAMPLE:** The taxpayer has total Arizona sales of \$100,000 and total everywhere sales of \$1,000,000. On line C3(e), column

A, enter \$200,000 of Arizona sales. On line C3(e), column B, enter \$1,000,000 of everywhere sales for the taxpayer.

The sales factor ratio on line C3(e), column C, may, in certain circumstances, exceed 100 percent. However, since the total ratio (line C4, column C) is divided by four, the average ratio (line C5) will not exceed 100 percent.

**Line C5 - Average Ratio**

Divide the total ratio, line C4, column C by four. Enter the average ratio here and on page 1, line 9. Express the ratio as a decimal carried out to six places.

**NOTE:** Do not exclude a factor from the total ratio (line C4, column C) if the numerator of a factor is zero and the denominator of a factor is greater than zero. However, the taxpayer must exclude a factor if both the numerator and the denominator of a factor are zero. If the property or payroll factor is excluded, determine the average ratio (line C5, column C) by dividing the total ratio by three. If the sales factor is excluded, determine the average ratio by dividing the total ratio by two.

**Schedule D - Nonapportionable Income/Expenses  
(Multistate Taxpayers Only)**

The taxpayer must apportion all business income (and expenses) by the use of the apportionment formula. Nonbusiness income is nonapportionable and specifically allocable to a particular state.

Subtract nonbusiness income from the Arizona adjusted income of the taxpayer (page 1, line 6) to compute the amount of income that is subject to apportionment (page 1, line 8).

Use Schedule D to compute the amount of nonapportionable income (and expenses) subtracted on page 1, line 7.

"Business income" under the transactional test means income arising from transactions and activity in the regular course of the taxpayer's trade or business. Business income under the functional test includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. (ARS § 43-1131) "Nonbusiness income" means all income other than business income. (ARS § 43-1131)

On lines D1 through D5, enter all income (or loss) which is nonapportionable or specifically allocable to Arizona. Refer to ARS §§ 43-1134 through 43-1138 for the methods of allocating certain types of nonbusiness income. Refer to the specific line instructions listed below.

**Line D1 - Nonbusiness Dividend and Interest Income**

- Enter all nonbusiness dividend income not deducted in Schedule B.
- Enter nonbusiness interest income.

**Line D2 - Nonbusiness Net Royalties**

Enter any net royalties from nonbusiness properties. Attach a separate schedule to the return showing each royalty.

**Line D3 - Nonbusiness Net Rental Income**

Enter any net rental income from nonbusiness properties. Attach a separate schedule to the return showing each rental property.

**Line D4 - Gain or (Loss) From Sale(s) of Nonbusiness Assets**

Enter any gain or loss recognized on the disposal of nonbusiness property. Identify each item of nonbusiness property and the gain or loss recognized on such property on a separate schedule. Do not include any gain or loss recognized on the disposal of property used in connection with the unitary business or the business activities of the Arizona affiliated group. Such income is business income and is subject to apportionment.

**Line D5 - Other Income**

Enter any other nonapportionable or wholly allocable items. Attach a complete schedule detailing the items. Enter the amount of any nonapportionable income (or loss) from the schedule (for Part II, line 12, column (a)) attached to the Form 165 Schedule K-1(NR) from a multistate partnership.

**Treatment of a nonbusiness partnership on line D5**

**Wholly Arizona nonbusiness partnership** - Enter the total amount of income (or loss) from the partnership. This is the amount included in the corporation's Arizona gross income plus the amount included in Schedule A or B. This amount is nonapportionable income and it is specifically allocable to Arizona.

**Multistate nonbusiness partnership** - Enter only the amount of income (or loss) from the partnership included in the corporation's Arizona gross income as nonapportionable income. Line D5 of Schedule D already includes the nonapportionable income or loss from the partnership on the Form 165 Schedule K-1(NR).

**Line D7 - Foreign Income Expenses**

Enter any expenses attributable to foreign income producing activities. Refer to ARS § 43-1132. Attach a schedule showing the expenses included on this line.

**Line D8 - Total Nonapportionable Income and Expense**

This is the total amount of nonapportionable income (loss) and expenses. Enter this amount here and on page 1, line 7.

**NOTE:** *If this amount is negative, enter the amount here and on page 1, line 7. To calculate the amount for page 1, line 8, remember to add line 6 to line 7 instead of subtracting, as the instructions indicate.*

**Schedule E - Other Income Allocated to Arizona  
(Multistate Taxpayers Only)**

On lines E1 through E6, enter all income (or loss) which is allocable to Arizona. ARS §§ 43-1134 through 43-1138 specify the methods for allocating certain types of income to Arizona. The specific line instructions below summarize the provisions of these statutes. DO NOT include any nonbusiness income which is allocable to another state in Schedule E. Enter the total amount of income (or loss) allocated to Arizona on line E7 and on page 1, line 11.

**Line E1 - Gain or (Loss) From Sale(s) of Arizona Nonbusiness Assets**

Capital gains and losses from sales of real property located in Arizona are allocable to Arizona. Gains or losses from sales of tangible personal property are allocable to Arizona if the property had a situs in Arizona at the time of sale. Such gains or losses are also allocable to Arizona if the taxpayer's commercial domicile is in Arizona and the taxpayer is not taxable in the state in which the property had a situs.

**Line E2 - Net Rental Income of Arizona Nonbusiness Assets**

Net rents from real property located in Arizona are allocable to Arizona. Net rents from tangible personal property are allocable to Arizona to the extent that the taxpayer uses the property in Arizona. Such net rents are entirely allocable to Arizona if the taxpayer's commercial domicile is in Arizona and the taxpayer is not organized under the laws of or taxable in the state in which the taxpayer uses the property. The extent of use for net rents is determined by Arizona law. Refer to ARS § 43-1135.C.

**Line E3 - Net Royalties From Arizona Nonbusiness Assets**

Net royalties from real property located in Arizona are allocable to Arizona.

Net royalties from tangible personal property are allocable to Arizona to the extent that the taxpayer uses the property in Arizona. Such net royalties are entirely allocable to Arizona if the taxpayer's commercial domicile is in Arizona and the taxpayer is not organized under the laws of or taxable in the state in which the taxpayer uses the property. The extent of use for net royalties is determined by Arizona law (refer to ARS § 43-1135.C).

Patent and copyright royalties are allocable to Arizona to the extent that:

- The payor uses the patent or copyright in Arizona.
- The payor uses the patent or copyright in a state in which the taxpayer is not taxable and the taxpayer's commercial domicile is in Arizona. The extent of use for patents and copyrights is determined by Arizona law (refer to ARS § 43-1138.B and ARS § 43-1138.C).

**Line E4 - Income From Arizona Nonbusiness Intangibles**

Capital gains and losses from sales of intangible personal property are allocable to Arizona if the taxpayer's commercial domicile is in Arizona, unless the gains (losses) constitute business income.

**Line E5 - Federal Income Tax Refund**

Enter any prior taxable year federal income tax refund that resulted in a tax benefit for Arizona income tax purposes. Include any federal Form 1139 refunds received that resulted in a tax benefit for Arizona tax purposes.

## Line E6 - Other Income or (Loss)

Enter any other income or (loss) directly allocable to Arizona. Attach a complete schedule detailing the items. Enter any income (or loss) which is specifically allocable to Arizona from the schedule (for Part II, line 12, column (c)) attached to the Form 165 Schedule K-1(NR) from a multistate partnership.

### Treatment of a nonbusiness partnership on line E6

**Wholly Arizona nonbusiness partnership** - Enter the total amount of income (or loss) from the partnership (the amount from Schedule D, line D5) as income specifically allocable to Arizona.

**Multistate nonbusiness partnership** - Enter only the amount of income (or loss) from the partnership included in the corporation's Arizona gross income as income specifically allocable to Arizona. Schedule E, line E6, already includes the income or loss from the partnership on the Form 165 Schedule K-1(NR) which is specifically allocable to Arizona.

## Schedule F - Tax Payments

Use this schedule to list any corporate estimated tax payments or extension payments made which the taxpayer is applying to this return.

List the following information for each payment:

- (a) name of the corporation making the payment;
- (b) corporation's FEIN;
- (c) date of payment;
- (d) type of payment [estimated (including application of overpayment from 2000) and extension]; and
- (e) amount of payment.

Attach an additional list of payments if the taxpayer paid more payments than the number of payments shown on the form.

DO NOT include the retroactive consolidation tax payment credit or the claim of right credit computed under ARS § 43-1130.01 in this schedule.

**NOTE:** *The total estimated payments and extension payments reported on this schedule must equal the amounts reported on page 1, lines 28 and 29.*

## Schedule G - Other Information

All taxpayers must complete lines G1 through G8. If the answers are lengthy, continue the answers on a separate sheet of paper.

**Question G3:** List the name, title and telephone number of the individual who Department of Revenue employees may contact to to schedule an audit of this return. Confidential information may be disclosed to a principal officer, any person designated by a principal officer, any person designated in a resolution by the corporate board of directors or other similar governing body, or to an individual designated as an authorized representative in a valid power of attorney. A principal corporate officer of a parent corporation may execute a written authorization for a controlled subsidiary. IF THIS INDIVIDUAL IS NOT A PRINCIPAL OFFICER,

OR IS NOT DESIGNATED AS AN AUTHORIZED REPRESENTATIVE IN A VALID POWER OF ATTORNEY, THE TAXPAYER UNDERSTANDS AND AGREES THAT CONFIDENTIAL INFORMATION MAY BE DISCLOSED TO THIS INDIVIDUAL.

Multistate taxpayers must also complete lines G9 and G10. Attach any required explanation for these lines to the return.

## Certification

One or more of the following officers (president, treasurer, or any other principal officer) must sign the return.

**Paid preparers:** Sign and date the return. Complete the firm name and address lines (the preparer's name and address if self-employed). Enter the preparer's TIN, which is the firm's FEIN or the individual preparer's social security number or preparer identification number.